

CITY OF HAYWARD
AGENDA REPORT

AGENDA DATE 12/16/03

AGENDA ITEM _____

WORK SESSION ITEM WS 2

TO: Mayor and City Council
FROM: City Manager
SUBJECT: Adjustments to 2003-04 Budget

RECOMMENDATION:

It is recommended that the City Council review and comment on this report.

DISCUSSION:

Attached is a report presented to and discussed by the Budget and Finance Committee at its meeting of December 2, 2003 concerning adjustments to the FY 2003-04 budget. As outlined in the report, two revenue sources - the Vehicle License Fee (VLF) and sales tax - will most likely not meet budget. In the case of VLF, the reduction is due to state action, while the lower sales tax revenue is reflective of a sluggish economy. As this could result in a possible budget short fall of \$3.9 million, it is necessary to take corrective action now.

Following its review and discussion of the corrective measures recommended by staff, the Committee voted to concur with the suggested revisions, with four modifications as follows:

- ❑ The budget contains \$9,500 for the Council's Special Travel Budget. The Committee noted some members made travel plans in reliance of the availability of these funds. Consequently, the Committee recommends that \$4,500 be eliminated, leaving \$5,000 in the budget.
- ❑ The Technology Services budget contains \$80,000 for contract services for the City's Web Site. The Committee agreed that this amount could be reduced but noted that certain objectives, such as providing customer services over the City's web site, may require some outside assistance. The Committee recommends that the budget be reduced by \$60,000, leaving \$20,000 in the budget for 2003-04, with the understanding that the \$20,000 be expended only if it is indeed necessary to utilize outside services.
- ❑ As noted in the report, staff presented several capital projects that could be reduced for 2003-04 and sought direction from the Committee with respect to specific reductions to present to the Council. The Committee concurred with the proposed reductions, with two changes. First, the Committee recommends that the traffic signal at Huntwood/Schafer

continue to be funded. Second, with regard to the general fund transfer to the transportation fund, staff recommended that the currently budgeted transfer be reduced by \$175,000. The Committee recommends that the transfer be reduced to \$75,000, or \$100,000 less than suggested by staff.

Approval of the Committee's recommendation results in an overall savings of \$1,198,000.

The following table summarizes the recommended revisions as originally proposed by staff and revised by the Committee.

Recommended Budget Savings

Employee Services	\$ 2,009,000
Maintenance & Utilities	150,000
Supplies and Services	651,000
Net Interdepartmental Charges (Credits)	<u>155,000</u>
 Total Operating Budget Savings	 2,965,000
 Capital Projects	 <u>1,198,000</u>
 Total Savings	 <u><u>\$ 4,163,000</u></u>

I had hoped that the recommended budget savings discussed above, if implemented, would put the 2003-04 budget to rest. Unfortunately, the question of state backfill for the VLF has not been resolved. Proposed legislation has been brought forward in Sacramento to backfill the VLF and keep local government "whole". Whether or not this will happen is open for speculation. For Hayward, any additional loss in VLF will have a significant impact in services to the public. For example, the original VLF budget for 2003-04 was \$8.4 million. Due to the lack of backfill for the first quarter of this fiscal year, this estimate has been reduced by \$1.7 million to a new estimate of \$6.7 million. If the state does not provide backfill payments for the balance of the year, then approximately 67% or \$4.5 million of revenue is at risk. Attempting to react to this possible turn of events is not practical given the amount of information available. However, I believe that additional loss of VLF revenue for 2003-04 is a very real possibility. As a consequence, I believe that it may be necessary to return to Council before the end of this fiscal year to address further revenue shortfalls in the VLF. We can only hope that will not be the case.

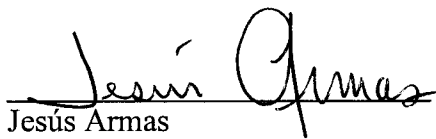
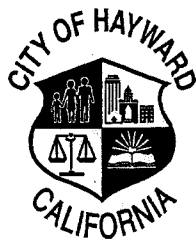

Jesús Armas
City Manager

Exhibit A: Staff Report to Budget and Finance Committee, Dec. 2, 2003



CITY OF HAYWARD STAFF REPORT

EXHIBIT A

AGENDA DATE 12/02/03

AGENDA ITEM _____

TO: Council Budget and Finance Committee

FROM: City Manager

SUBJECT: Adjustments to 2003-04 Budget

RECOMMENDATION:

It is recommended that the Committee review and comment on this report.

DISCUSSION:

As I previously reported, there are two issues negatively impacting the 2003-04 budget. First, the State voted to not fully back fill the Vehicle License Fee for 2003-04 resulting in a projected revenue shortfall of approximately \$1.7 million. Second, sales tax revenue is in danger of not meeting budget by approximately \$2.2 million. Assuming no other changes, the combined impact to the General Fund could be a budget short fall of approximately \$3.9 million for 2003-04.

To address this potential revenue short fall, I directed department heads to work with their staff to develop a series of budget savings that would address the budget short fall for 2003-04. In particular, I asked that departments develop budget reduction plans of 3%, 5% and 7% of their 2003-04 expenditure budgets. This approach recognizes that a certain amount of flexibility is required and that not all departments can "contribute savings" at the same level without impacting critical services.

I think it is important to note at this point that a comprehensive programmatic review, as I have recommended for the 2004-05-budget year, was not appropriate in this instance. Instead, I asked staff to consider cost saving opportunities that are already ongoing, for example vacant positions. Utilizing this approach, even though short term in nature, has the least amount of impact to City operations. For other expenditure areas I asked staff to consider reductions that would obviously impact, but not eliminate programs. The result is that the budget response for 2003-04 is a pragmatic response intended to be implemented in a relatively short time-period. Clearly, this is not the recommended approach for the upcoming budget year, 2004-05. As discussed earlier, the budget shortfall for 2004-05 is significant, and must be addressed in a comprehensive manner that produces long-term financial stability. This material will be brought forward to Council during the budget process for 2004-05.

Finally, as the Committee will note, the directions I gave to staff addressed only the expenditure side of the budget. The primary reason for not reassessing revenues at this time is the uncertain

direction of the economy and the uncertainty of any actions that the state may take in the upcoming months to balance its budget. Expenditures on the other hand are within the control of the City and can be modified in a relatively short period of time to maintain a balanced budget.

The following schedule summarizes the expenditure reductions which I believe are necessary to maintain a balanced budget for 2003-04. As can be seen from the schedule all areas of the expenditure budget are impacted. This schedule also divides potential budget savings between operating expenditures and capital expenditures.

General Fund-Recommended Budget Savings	Budget Savings
Employee Services	\$ 2,009,000
Maintenance & Utilities	150,000
Supplies and Services	676,000
Net Interdepartmental Charges (Credits)	<u>155,000</u>
Total Operating Expenditure Savings	\$ 2,990,000
Capital Projects	<u>910,000</u>
	<u><u>\$ 3,900,000</u></u>

As can be seen in the schedule above, savings in the Operating Expenditure category is approximately \$3 million. This leaves a variance from the targeted savings of \$3.9 million of approximately \$910,000. To address this shortfall staff has reviewed the City's capital improvement budget for 2003-04 and identified several projects that could be delayed or cancelled in 2003-04. These projects are discussed in greater detail in the Capital Projects section of this report.

Employee Services (Savings \$2 million)

Not unexpectedly, the biggest savings are realized in the employee services area. All departments are providing some level of savings. The savings are generated primarily from positions which are budgeted for 2003-04, but which are currently vacant, or will be vacant at some point during the fiscal year. In some cases, personnel costs can be charged to another fund. Since we have been able to utilize vacant positions to generate significant savings, I am not recommending any lay offs for fiscal year 2003-04.

As noted above, the City is currently generating approximately \$2 million in employee services savings due to vacant positions. Approximately \$1 million can be attributed to such departments as the City Manager, City Attorney, Finance and Internal Services, Public Works and Community and Economic Development and Fire departments. The balance of the savings is generated by the Police Department.

For those departments, other than Police, the vacancies are spread across various types of positions. Examples of positions that are vacant are a Customer Account Clerk, Programmer Analyst and Maintenance Worker. In all cases, however, none of the vacant positions result in the termination of a program. Instead these vacancies can be characterized as resulting in a loss of flexibility to respond to work demands. Consequently, it may take longer to accomplish certain tasks as work volume varies, but there is no termination of services.

Given the critical role that police services play in the community I think it is appropriate to discuss in greater detail the vacancies in the Police Department that are being counted on to provide savings for the balance of 2003-04.

Several positions in the Police Department are impacted. In one case, an Inspector is being assigned to an outside task force and will be funded by that task force. The work assigned to this position will not change, hence there is no impact to service delivery. Secondly, two Community Service Officers (CSO) positions would remain unfilled. This will increase the workload of beat officers to a certain extent. Also, officer time available for such areas as abandoned vehicle and parking enforcement will decrease. Response time to non-critical incidents may increase.

Other positions that would be held open are Crime Scene Technician, Communications Operator (1/2) time, and the Deputy Chief position. Leaving these positions open requires that other staff assume workload variances. The consequence is that some projects may take longer to complete, or that staff be redirected to cover priority work or projects.

The balance of the Police Department vacancies is in the Patrol Division. At this time staff is recommending that six police officer positions remain unfilled. One position is the second Southland Officer and one is assigned to the Downtown Patrol. Staff notes that reconfigured beat areas address the Southland vacancy by providing increased patrol presence in that area. The Downtown patrol currently operates with one officer and would continue to do so. The remaining four positions would come from the Patrol Division.

At this time the Patrol Division fields seven teams to meet the requirements of 24/7 coverage. Each team has one Lieutenant, two Sergeants and several officers, ten or more. The number of officers on a particular team can vary for several reasons including the specific shift, workload issues, and any emergencies that may have occurred. Without question, having four less officers available for the teams will impact operations. However, because Patrol staffing is flexible it is not practical to predict which team will be short a police officer(s), or at which time. Staff, however, will schedule the teams to minimize the impact of fewer officers. Regardless there will be fewer officers available overall. The consequence is that the public may experience longer response times and the officers may face an increased workload. Also, should an emergency or extraordinary events arise it may be necessary to incur overtime and/or reassign staff from other areas to meet service needs in the Patrol Division.

Maintenance & Utilities (Savings \$150,000) and Supplies and Services (Savings \$676,000)

A review of these two categories shows that staff is recommending reductions in almost every budget account. In some cases the reductions are the result of holding a position or positions open or frozen, hence reducing the need for supplies. The general impact is several relatively

small reductions across many accounts. Consequently, there is no single reduction that materially impairs service delivery and should be singled out for the Committee's attention.

There are however, a few large reductions and one substantial savings that the Committee should be aware of. In terms of savings, the Fire Department has been able to save \$100,000 on the Fire Records Management System Project. This savings is due to declines in software costs and efforts by staff. With respect to cost reduction, the 2003-04 Budget contains \$80,000 for outside services to help develop the City's Web Site. City staff is capable of performing this work and I am recommending that the budget be reduced by that full amount. In another case, I am recommending that the Council's Special Travel budget, which is \$9,500 for 2003-04 be eliminated. Finally, I am recommending that the rate charged by the Equipment Management Fund for vehicle replacement be reduced by \$100,000 for 2003-04. Staff has reviewed the equipment replacement list for this fiscal year and determined that several planned purchases can be postponed. Examples of items that will be delayed are a utility truck and several pick-up trucks.

Net Interdepartmental Charges (Credits) (Savings \$155,000)

The Public Works Department and the Community and Economic Development Departments have carefully reviewed employee services time that may properly be charged to another fund or capital projects. When an employee is budgeted for in the General Fund, but provides direct service to another fund or capital project then that time is charged out through the use of Interdepartmental Charges (Credits). The review completed by the two departments indicates that additional time can be charged out providing a savings to the General Fund for 2003-04 of approximately \$155,000.

Capital Projects (Transfers Out) (Savings \$910,000)

As noted earlier, the estimated shortfall for 2003-04 is caused by revenue shortfalls in two areas, sales tax and the VLF. Sales tax is ongoing revenue and similarly budget changes made in response to sales tax trends should also be of an ongoing nature. The VLF change for 2003-04, however, may be viewed as a one-time reduction (assuming the State meets its obligations). Consequently, I think it is appropriate, from a budget standpoint, to use one-time savings to help balance the budget for 2003-04. Consequently, I am recommending that certain capital projects be delayed and that the funds returned to the General Fund for 2003-04. The following list contains capital projects that can be delayed and thereby provide budget relief to the General Fund for the current year. The number of projects and the dollar savings is in excess of the target amount of approximately \$1 million.

Staff seeks direction from the Committee with respect to which projects staff should take forward to the full Council for consideration. The following schedule lists several capital projects which staff believes could be delayed or dropped from the 2003-4 capital projects budget. The total dollar value of projects that have been so identified is approximately \$1.5 million. This amount is in excess of the targeted budget amount of \$910,000.

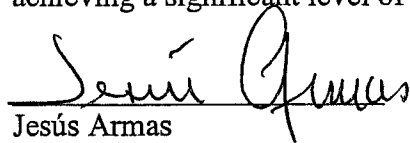
<u>Project</u>	<u>Amount</u>	<u>Comments</u>
Delay A Street Median Landscape Imp.	300,000	Community Appearance
Delay Jackson Street Median Landscape Imp.	300,000	Community Appearance
Delay South Mission Blvd Greenway and Entrance Renovation	198,000	Community Appearance
Street Lighting Fund	300,000	Delays in undergrounding of utilities by PG&E have delayed City street lighting projects. Consequently, 2003-04 funding can be delayed.
Traffic Signal Huntwood/Schafer	175,000	Possible delay of project, rebudget in subsequent period.
Transportation Fund	175,000	Reduce General Fund transfer to Transportation Fund. Consider refunding in subsequent periods.
	<u>\$ 1,448,000</u>	

Summary

I believe that staff has developed a workable response to the budget challenge that we face for 2003-04. By taking advantage of existing open positions the City can avoid lay-offs, at least for this fiscal year. Even so, staff in many cases will have to carry an additional workload to maintain service levels at an acceptable level. Belt tightening in the non-employee services budget also provides savings to help us get through this year without impacting programs significantly. After exhausting these areas for savings, staff seeks Committee input with respect to capital projects that could be delayed or not done to provide additional savings.

Following review by the Committee, this item will be presented to the full City Council for review at its December 16 Work session.

In closing, I would like to thank City staff for responding to the budget challenge and developing a series of recommended savings which strive to maintain the delivery of city services while achieving a significant level of savings for 2003-04.


 Jesús Armas
 City Manager